



STATE OF OKLAHOMA
OKLAHOMA LOTTERY COMMISSION
OFFICIAL MINUTES

March 19, 2019

The Oklahoma Lottery Commission, established pursuant to the provisions of the Oklahoma Education Lottery Act, Sections 701 et seq. of Title 3A of the Oklahoma Statutes, held a meeting March 19, 2019 at 1:30 p.m. The meeting was held in the Conference Room of the offices of the Oklahoma Lottery Commission at 3817 North Santa Fe Avenue, Oklahoma City, Oklahoma. In compliance with the Open Meetings Act, 25 O.S. § 301 et seq., the agenda for this meeting was posted at the main and side building entrances, in addition to the main interior office window of the Oklahoma Lottery Commission at 3817 North Santa Fe Avenue, Oklahoma City, Oklahoma on March 15, 2019, at 1:30 p.m. The agenda was sent electronically to the Board members on March 15, 2019, and was posted to the website on March 15, 2019. The agenda is attached as Exhibit A.

AGENDA ITEM 1:

CALL TO ORDER. Chairperson Matthew Felty called the meeting to order at 1:30 p.m. The roll of Board members was called to establish quorum.

Board members present were:

Matthew Felty
Jack Sherry
Ralph E. "Ted" Blodgett
Nevyle Cable
George R. Charlton, Jr.

Board members absent were: James Orbison

Based on the result of the roll call, the Chair declared a quorum was present.

Others in attendance were: Rollo Redburn, Executive Director; and Amber Fox, Board Assistant. Others present were Brandie Reisman, Scott Moulton, Jay Finks, Paula Clanahan, and Audra Eccles of the Oklahoma Lottery Commission; Lyn Martin-Diehl, Assistant Attorney General; Bryan Colbert of Scientific Games; and Kate Cunningham and Jennifer Monies of Saxum.

AGENDA ITEM 2:

ANNOUNCEMENT OF FILING OF THE BOARD MEETING NOTICE AND POSTING OF THE AGENDA IN ACCORDANCE WITH THE OPEN MEETINGS ACT. The Chair called upon Ms. Fox to verify that proper public notice was made with regard to the March 19, 2019 board meeting, in accordance with the Open Meetings Act. Ms. Fox verified that all necessary steps had been taken to remain in compliance with the Act.

AGENDA ITEM 3:

READING AND APPROVAL OF MINUTES. (Exhibit B) Mr. Felty moved that the reading of the minutes of December 4, 2018 Special meeting be waived and approved as published and distributed. Mr. Cable seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:

Mr. Felty	Yes
Mr. Sherry	Yes
Mr. Blodgett	Yes
Mr. Orbison	Absent
Mr. Cable	Yes
Mr. Charlton	Abstain

THE RESULT WAS FOUR VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND ONE ABSTAINED.

THE MOTION PASSED.

AGENDA ITEM 4:

UPDATE FROM THE LOTTERY'S EXECUTIVE DIRECTOR: Rollo Redburn, Executive Director, gave a report outlining current Oklahoma Lottery Commission activities.

Legislation / Beneficiary Ads

Mr. Redburn indicated the Lottery is pursuing House Bill 2347. Under current law, the Lottery cannot use children under the age of 18 in any form of advertising. Under this bill, the Lottery would be prohibited from using children under 18 in the advertising of games or products, which would allow the use of students in beneficiary-type ads. The Lottery is also required to inform the public of how Lottery funds are used. Bill 2347 passed in the House on February 12, 2019 and is currently in the Senate.

Legislation / Other Topics

Mr. Redburn also indicated that the Lottery has other future legislative issues including an exemption from the current procurement process.

Operations and Reporting Enhancements

Mr. Redburn outlined quarterly board meeting dates and content and indicated that this could be changed as desired by the Board.

- March – Budget, review the status of legislation, rulemaking actions, and review contract renewals and amendments.
- June – Review the status of any proposed rules changes, review the status of legislation, address any outstanding contract issues, approve the Lottery budget for the fiscal year, and take action on the Lottery employee bonus program.
- September – Approve revenue estimates, changes to multiyear strategic plan, possible changes to statutes and possible legislation, and possible first steps on rule changes.
- December – Adopt final estimate of revenues and expenditures, initiate rule making, and discuss changes to the budget, contracts and legislation.

The Lottery completed a report, as required by September/October, on Lottery related legislation to update the legislature on the success of the law changes.

Currently there are two board member vacancies. One being the seat vacated by David Ostrowe. The other being the seat occupied by Mr. Charlton, who has indicated that he does not wish to be reappointed. Mr. Redburn described that Mr. Charlton is a charter Board Trustee, having been on the Board since the very first Board appointments. He has served in multiple capacities and offices and has been instrumental in the success of the Lottery.

Mr. Redburn stated that the projected, cumulative (total) beneficiary contribution through FY19 is \$934 million. We project to achieve a total contribution of \$1 billion late in FY2020.

Retailer Contract / Tribal Businesses Operating on Non-Tribal Land

The Lottery is continuing to work with the Governor's Office and the Lottery's Assistant Attorney General on a process for retailer contracts for use with tribal businesses that are operating on non-tribal lands.

Liquor Store Recruitment

Mr. Redburn gave an update on liquor store recruitment. Currently the Lottery has twenty-five active liquor stores contracted to sell lottery products and the Lottery continues to recruit liquor stores.

Debit Cards

The Lottery has received good feedback from players about the use of debit cards to purchase Lottery products. The Lottery continues to educate retailers about debit cards.

2nd Chance Drawing /Online Entries

Mr. Redburn covered seven recent promotions and the number of entries submitted. At this time there is no data to compare online entries verses mail and other entries. Online entries are very timesaving.

AGENDA ITEM 5:

REPORT OF AUDIT AND FINANCE COMMITTEE: Mr. Blodgett met with the Audit and Finance Committee before today's board meeting. Mr. Blodgett stated that the committee discussed the recent audits performed by BKD. They attempted a penetration test and for the most part were unsuccessful. They ran various other tests and the Lottery has implemented all of the recommendations but one that is in process. They did a phishing test and the auditors from BKD felt that the Lottery did better than most.

Mr. Blodgett indicated that the Lottery is a little ahead of budget and the scratch off numbers are up. Revenue is up and the percentage of administrative costs are down.

AGENDA ITEM 6:

SALES AND REVENUE UPDATE: Jay Finks, Deputy Director, presented an update on current sales and revenues.

- The FY18 year to date sales were about \$156 million.
- The FY19 year to date goal was about \$169 million, a 10% increase on instant, 6.5% increase on draw games, and an overall net of 8.5%.

- Currently sales are up just under 11%, at \$173 million. Those are all-time highs and just 2% over the goal.
- Instant sales are up 8.5%, the goal was 10%.
- Powerball sales are down 20% but total jackpot game sales are up 16%.

- Instant games FY18 year to date sales were \$87 million.
- The FY19 year to date goal was \$96 million, up 10%.
- Currently there has been \$95 million in sales, up 8.5%.

- Draw games FY18 year to date sales were \$69 million.
- The FY19 year to date goal was \$73 million.
- Currently there has been \$78 million in sales.

- The FY18 sales were \$221 million, a 47% increase.
- The FY19 sales goal was just shy of \$240 million and the FY19 projection is \$240 million in sales.
- The Lottery is well ahead of the FY19 beneficiary contribution target.

- The FY18 beneficiary contribution was \$63 million.
- In FY19 the Lottery is hoping for almost \$66 million and right now it's trending at about \$67 million.

An update on the employee incentive program: if the Lottery exceeds the FY2019 sales goal, and if approved by the Trustees in the June board meeting, then the non-recurring payment to the employee would be 5%. Under current guidelines, the employee must have a minimum of 12 months of service, be employed on the last day of the fiscal year, and receive a "Meets Standards" or better review. If the sales goal is achieved, management will likely recommend that the Lottery be allowed to prorate the incentive for employees with less than 12 months of service that meet the other requirements.

The Sales Department has a renewed emphasis on corporate stores. The Lottery focused on the top 6 and how to grow the business within those. The Lottery is pushing the sales team to make sure Lottery products are front and center. The Lottery is looking for opportunities to expand the retailer territories. The Marketing Department has continued advertisement and promotion. The Lottery is in the midst of redoing both of its apps and is hoping for a launch later next month. Long-term initiatives include a loyalty program, new games, new forms of delivery, and a consumer initiative. The Lottery continues to look at liquor stores and is working on a significant recruitment initiative. The Lottery has a new \$10 game coming up, app coming out, and the Lottery has developed the ability to use coupons.

AGENDA ITEM 7a.:

DISCUSSION AND POSSIBLE ACTION REGARDING DRAWING AUDITOR: WRIGHT-MCAFEE; recommended new contract: A Wright-McAfee auditor views the nightly in-state draw game drawings live via webcam. The auditor confirms the numbers that the Lottery draws. The auditor calls Scientific Games and confirms that the numbers that the Lottery drew are the numbers that the Lottery sent in. Mr. Finks recommended that the Wright-McAfee contract be reissued for 1 year with four options for annual renewal, not to exceed \$13,000 for the first year.

Mr. Felty moved to approve the renewal of the Wright-McAfee contract renewal as outlined. Mr. Sherry seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Absent
	Mr. Cable	Yes
	Mr. Charlton	Yes

THE RESULT WAS FIVE VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.
THE MOTION PASSED.

AGENDA ITEM 7b.:

DISCUSSION AND POSSIBLE ACTION REGARDING ADVERTISING: SAXUM; recommended new contract: The Saxum contract covers media placement, TV and radio production, creative services, research projects, and is a resource for the Lottery to place advertising. Mr. Finks recommended that the Saxum contract be renewed for 1 renewable term, not to exceed \$2.5 million.

Mr. Cable moved to approve the renewal of the Saxum contract as outlined. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Absent
	Mr. Cable	Yes
	Mr. Charlton	Yes

THE RESULT WAS FIVE VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.
THE MOTION PASSED.

AGENDA ITEM 7c.:

DISCUSSION AND POSSIBLE ACTION REGARDING GAMING SYSTEM VENDOR: SCIENTIFIC GAMES INTERNATIONAL; recommended contract renewal and contract amendment: Scientific Games International provides the instate draw system, the hardware, gaming systems, the self-service machines, and the marketing and technical employees in the field. The current contract includes 3.99% of sales and a 1% bonus based on any sales above a three year average. There are also two monthly charges, the LIMS (Lottery in Motion) development and maintenance charges and Sales Force Automation. If the Lottery's sales are \$240 million then the Lottery will pay Scientific Games about \$10.5 million. Mr. Finks recommended that the Scientific Games International contract be renewed.

Mr. Finks noted that self-service machines are growing in popularity in the Lottery industry. Lotteries are seeing up to 37% of growth from self-service machines. Nationwide retailers who have complemented their Lottery products with a self-service machine have seen 20%-30% growth. The Lottery has 104 PCT's that are deployed and the 50 PHD's that are currently in test are the only inventory. The Lottery is projecting the demand next year could elevate rather quickly. Mr. Finks suggested that the board grant the Lottery authority, if needed, to purchase up to 100 additional PHD's. The machines are about \$16k each. The machines the Lottery has in inventory do not include debit and the Lottery thinks they probably should. If Scientific Games puts debit in the machines they would handle all the communications and pass the fees on to the Lottery. The estimated transaction cost is 2.99% of sales and a 6.5% swipe fee. The Lottery is asking for the authority to buy the machines if needed and explore adding a cashless payment/debit capability to those machines. Two more costs for the contract are a licensing fee and sharing the cost to redo the backup generator system.

Mr. Redburn lobbied the board for the authority to do all suggested items, but only if needed. Mr. Felty indicated that the board wants to ensure that the Lottery is getting the best deal through Scientific Games. The board wants Scientific Games to understand that the board is committed to growing the Lottery in the State of Oklahoma at the best price. The Board tabled Item 1 (the purchase of up to 100 PHD's) and said they would come back on a special meeting or address it further in a later meeting.

Mr. Cable moved to approve the renewal and amendment of the Scientific Games International contract as outlined and to table Item 1 (the purchase of 100 PHD's). Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Absent
	Mr. Cable	Yes
	Mr. Charlton	Yes

THE RESULT WAS FIVE VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.

THE MOTION PASSED

AGENDA ITEM 7d.:

DISCUSSION AND POSSIBLE ACTION REGARDING EXTERNAL FINANCIAL AUDITOR: RSM US; recommended contract renewal: RSM US performs the external financial audits for the Lottery. Mr. Finks recommended that RSM contract be renewed for the next contract year, not to exceed \$50,000.

Mr. Cable moved to approve the renewal of the RSM contract as outlined. Mr. Blodgett seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Absent
	Mr. Cable	Yes
	Mr. Charlton	Yes

THE RESULT WAS FIVE VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.

THE MOTION PASSED

AGENDA ITEM 7e.:

DISCUSSION AND POSSIBLE ACTION REGARDING INTERNAL CONTROLS AUDITOR (EXTERNAL): BKD, LLP CPA's and ADVISORS; recommended contract renewal: BKD, LLP CPA's and Advisors performs the internal audits including the IT department, events, promotional drawings, the retail contracts department, and the accounting department. Typically the Lottery will work with BKD on areas to audit. Mr. Finks recommended that the BKD contract be renewed, not to exceed \$50 thousand. Mr. Blodgett suggested that the board authorize \$65 thousand to make sure the Lottery is properly addressing future IT audits. Mr. Cable stated that the new recommendation is to increase the BKD contract total, not to exceed \$65 thousand.

Mr. Blodgett moved to approve the renewal of the BKD contract as outlined. Mr. Sherry seconded the motion. The Chair ordered a roll call with the following results:

Roll Call Vote:	Mr. Felty	Yes
	Mr. Sherry	Yes
	Mr. Blodgett	Yes
	Mr. Orbison	Absent
	Mr. Cable	Yes
	Mr. Charlton	Yes

THE RESULT WAS FIVE VOTES IN THE AFFIRMATIVE, NONE OPPOSED, AND NONE ABSTAINED.

THE MOTION PASSED

AGENDA ITEM 8:

ADJOURNMENT. The Board adjourned by general consent.

OFFICIAL MINUTES:

The action taken by the Oklahoma Lottery Commission on the items for consideration after motion duly made and seconded has been noted herein and made a part of these minutes. The Board caused the entire proceeding of the meeting, excepting any executive sessions, to be recorded on a digital audio recording device to be retained as a record in the office of the Board.